



# ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts  
Martha S. Mavredes, CPA

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## AUDIT SUMMARY

Our audit of the Assistive Technology Loan Fund Authority for the fiscal year ended June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Authority's financial system;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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## AGENCY HIGHLIGHTS

The Assistive Technology Loan Fund Authority (Authority) provides alternative funding resources for Virginians with disabilities to acquire assistive technology that can enhance their independence and improve their quality of life.

The Authority, through the management of a Revolving Loan Fund and grant funding, helps eligible applicants obtain low-interest loans and grants for a variety of assistive technologies. This includes modified and adapted vehicles, motorized scooters and wheelchairs, hearing and vision aids, augmentative communication devices, home modifications and ramps, recreational equipment (directly related to disability), prosthetics and orthodontics. The Authority issues and manages direct loans for all eligible clients. The Authority's Board of Directors' Loan Committee reviews all loan applications. Using criteria approved by the Board, the Loan Committee determines if the applicant qualifies for a direct loan from the Authority.

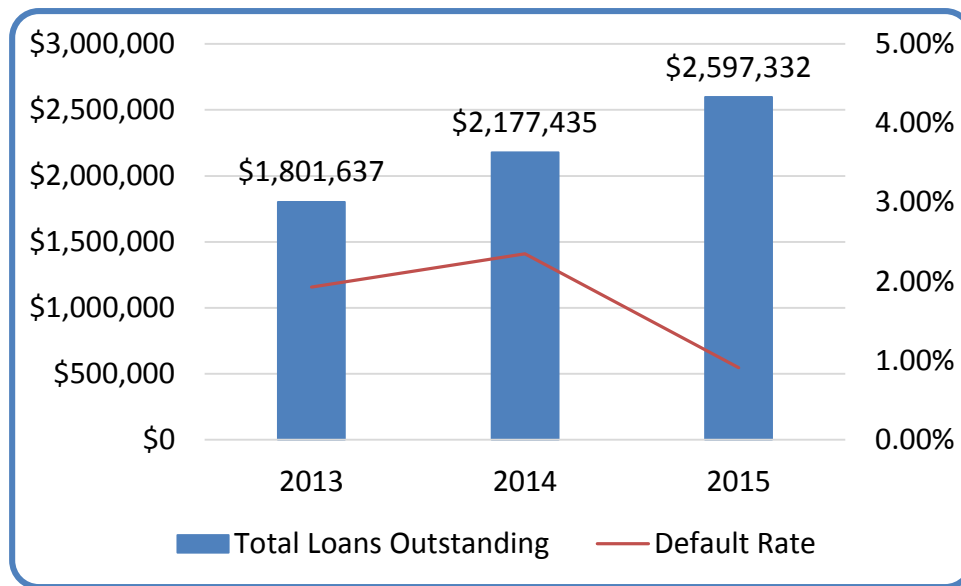
Historically, the Authority partnered with SunTrust Banks Inc. (SunTrust) to accomplish its mission of affordable financing alternatives through the issuance of guaranteed and non-guaranteed loans. Although the Authority terminated its partnership with SunTrust as of December 31, 2013, the Authority must maintain defined required funds at SunTrust until all guaranteed loan balances are paid in full. The Authority estimates clients will pay all outstanding balances in full by July 2018. As of June 30, 2015, there were 262 direct loans outstanding with the Authority, and ten guaranteed and 29 non-guaranteed loans outstanding with SunTrust. Also, though the Authority issued 11 grant awards during fiscal year 2015, the Authority has not received new grant funding since fiscal year 2013. The Authority determined private grant funding received in previous fiscal years was difficult to award due to locality restrictions on intended recipients.

### **Loan Losses**

Loan losses stem from defaults on the Authority's direct loans and guaranteed loans still held by SunTrust. The Authority's policy requires write-off of loans when there have been no payments for more than 180 days. However, due to the mission of the organization, the Authority strives to not write-off loans and offers loan modifications to recipients where possible. The amount of the Authority's loan write-offs decreased from \$69,766 in fiscal year 2014 to \$32,127 in fiscal year 2015. This decrease is mainly attributable to the Authority performing less write-offs during the year. In fiscal year 2015, the Authority wrote off 11 direct loans, compared to 14 in the prior year.

The graph on the next page shows total loan balances and default rates for the last three fiscal years. While outstanding loan balances have increased continuously, the default rate decreased during fiscal year 2015 compared to previous years, as previously discussed. The levels of default throughout the years continue to remain within close proximity to the Authority's performance metrics goal of a two percent loan default rate.

### Direct Loan Default Rates



Source: Authority Financial System

### Financial Operations

The Authority primarily uses the principal of the Revolving Loan Fund (Fund) to finance its direct loans and operations. The Fund's principal consists mostly of federal funds awarded or passed through to the Authority in prior years. Compliance with the federal awards requires the Authority to maintain the Fund program into perpetuity.

The Authority's primary income source is interest and fees accrued on direct loans. Interest and fees increased seven percent between fiscal years 2015 and 2014, primarily due to the increased loan receivable balance. The Authority fully eliminated the loan amount limit on direct loans during fiscal year 2015; therefore, the Authority expects this increase to continue correspondingly. The Fund also earns investment income on its principal. Investment income increased by 31 percent between fiscal years 2014 and 2015 due to an increase in CD rates after several years of low investment rates. For expenses, payroll accounts for more than half of the Authority's costs, with administrative expenses accounting for almost a quarter of total expenses.

The schedule on the next page reflects the Fund's year-end balances as of June 30, 2015, and 2014.

	2015	2014
<b>Assets:</b>		
Cash		
Unrestricted	\$6,930,435	\$7,593,160
Restricted	<u>116,703</u>	<u>192,112</u>
Total Cash	7,047,138	7,785,272
Loans Receivable*	<u>2,467,465</u>	<u>2,066,133</u>
Total Assets	9,514,603	9,851,405
<b>Liabilities:</b>		
Accounts Payable and Accrued Expenses	<u>6,083</u>	<u>4,810</u>
<b>Net Assets</b>	<u><b>\$9,508,520</b></u>	<u><b>\$9,846,595</b></u>

Source: Authority Financial System

\* Net allowance of \$129,867 for FY15, \$111,302 for FY14

The following schedule shows the Authority's revenue and expenses as of June 30, 2015, and 2014.

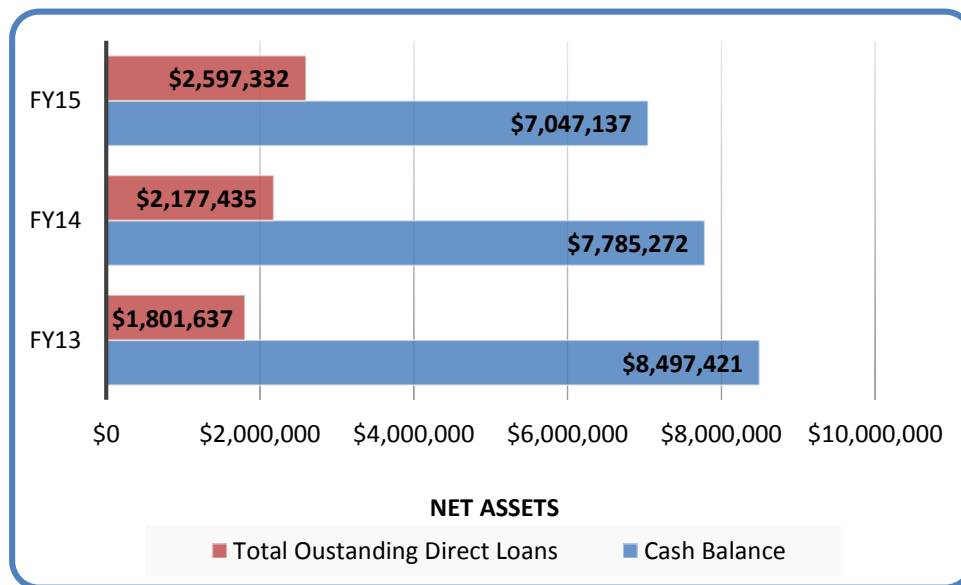
	2015	2014
<b>Revenues:</b>		
Contributions	\$ 1,479	\$ 375
Loan Interest and Fees	109,318	102,323
Investment Income	<u>31,961</u>	<u>24,343</u>
Total Revenues	142,758	127,041
<b>Expenses:</b>		
Grants and Awards	16,598	44,178
Loan Services	2,925	4,603
Payroll	275,760	228,795
Administrative Expenses	114,267	107,125
Marketing Expenses	10,463	4,447
Loan Losses and Write-offs	<u>60,820</u>	<u>96,917</u>
Total Expenses	480,833	486,065
<b>Net Expenses over Revenues</b>	<u><b>\$(338,075)</b></u>	<u><b>\$(359,024)</b></u>

Source: Authority Financial System

The Fund's sustainability relies heavily on the Authority's ability to maintain a balance between the interest it earns on its investments and loans, its operational expenses, and its mission to serve Virginians with disabilities. Since its inception, the Authority has struggled to successfully attain this balance. As such, the Authority experienced losses of \$359,024 in fiscal year 2014 and

\$338,075 in fiscal year 2015. Without new capitalization, the Authority projects to have financial difficulties operating beyond 2033. At that point, the Authority will have operated for nearly forty years on its initial capitalization. The chart below shows total outstanding direct loans and cash balances for the past three fiscal years. As the chart depicts, as the amount of loans outstanding increases, cash balances correspondingly decrease.

**Balances as of June 30th**



Source: Authority Financial System



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

July 8, 2016

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Assistive Technology Loan Fund Authority** (Authority) for the year ended June 30, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our audit's primary objective was to evaluate the accuracy of recorded financial transactions in the Authority's accounting system and to review policies, procedures, and oversight of the loan portfolio including provisions for reviewing individual loan status and follow through. Additionally, our objectives were to determine the adequacy of the Authority's internal controls and to test compliance with applicable laws, regulations, contracts and grant agreements.

## **Audit Scope and Methodology**

The Authority's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Awarding of grants and loans  
Cash receipting and collections of loan receivables  
Write-off of loan receivables  
Payroll expenses and other disbursements  
Application controls

We performed audit tests to determine whether the Authority's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Authority's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### **Conclusions**

We found that the Authority properly stated, in all material respects, the amounts recorded and reported in its financial system. The Authority records its financial transactions on the accrual basis of accounting, which is the basis of accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Authority's financial system.

We noted no matters involving internal control and its operations, including the policies, procedures, and oversight of the loan portfolio, that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **Exit Conference and Report Distribution**

We discussed this report with management on July 13, 2016.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

LDJ/clj

## ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

### BOARD MEMBERS (As of June 30, 2015)

David Axelle  
Chairperson

Robert T. Warren  
Treasurer

Keri Hughes  
Vice-Chairperson

Dean Bonney  
Jay McLaughlin

Brian Taylor  
Michael VanDyke

Sandra Cook  
Michael Costanzo  
Joyce Viscomi

Dr. William Hazel, Jr.  
Secretary of Health and Human Resources

Ronald L. Lanier  
Director for the Deaf and Hard of Hearing  
Designee for Secretary of Health and Human Resources

Barbara Ostrander  
Representative of Woodrow Wilson Rehabilitation Center

Sandra Prince  
Executive Director